

Monthly Progress Report #4

For Montana Project #8191

Research in Support of Container/Trailer on Flatcar in Intermodal Service on Montana's Class 1 Railroads RFP# 308128 RP

Reporting Period: September 1, 2007 – September 30, 2007

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Submitted to:

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Task 0: Project Management

The Kick-off meeting for the project was held on June 13, 2007. This task has been completed.

Task 1: Literature Review and Original Research (3.2.1.1)

The electronic survey deadline was established for September 30, 2007. A reminder was sent out in August to the 181 addresses which were collected. 28 responses were collected which is 15.4 response rate as of September 30, 2007. The collection will still remain active as other users have been encouraged to participate. Due to the disappointing electronic response, users are being contacted by telephone to participate. There seems to be reluctance to provide cost and volume data, but a general interest/support for the project.

A presentation was made on September 12, 2007 at the Montana Motor Carriers Association. The presentation provided information about the project and the scope of work and results from the literature review. Nineteen motor carriers were present along with two staff representatives. Three sign up sheets were circulated to invite motor carriers to provide their contact information for follow up. Carriers were asked to provide customer contact information for survey invitation purposes. Response was spotty. Seven Billings motor carriers were interviewed about intermodal interest, service levels and lanes. Many of the LTL users would like eastbound service to Minneapolis but transit time has been too slow. Since the railroad had discontinued providing containers several users have discontinued service due to the equipment investment required. Freight volumes to and from Billings are not balanced. Denver seems to be a primary market focus for many of these carriers.

A list of 160 Canadian and 16 Montana shippers was provided. Follow up phone calls were made to this group to identify intermodal interest and use patterns. Grain traders were contacted to identify transportation needs and gateway preferences.

Ocean carriers calling Portland, Seattle and Tacoma were contacted about the availability of empty equipment. Many are reporting record demand for exports and changes in vessel calls. With the weakness of the U.S. Dollar, there is more high value freight being exported, this freight is more desirable than bulk agricultural goods and generally moves at a higher rate level. Due to the large amount of exports, vessel draft is a consideration at some ports and results in a carrier preference for lighter weight export loads. Several carriers report that they have launched new East Coast service and now move exports over eastern ports. Two carriers seemed interested in Montana freight. One has recently launched a new service to the Pacific Northwest.

Documents and reports which have been commissioned and posted by the Montana Rail Service Competition Council were reviewed.

Action Items for Next Month:

- Continue phone interviews to determine demand and interest.

Task 2: Identification of Users by Geographic Region (3.2.1.1.1)

Canadian and Montana shippers were interviewed. Motor Carriers, 3PL's and Equipment providers were interviewed to determine equipment availability and rates. Rate information has been difficult to obtain without an actual user or shipper to assign the rate activity to.

Action Items for Next Month:

- Continue survey effort

Task 3: A Terminal Profile (3.2.1.1.2)

The Billings intermodal terminal was visited. Photos of the terminal were taken. Gate activity and equipment inventory was monitored. During the visit only UPS was actively pulling equipment out of the terminal. There were a number of railroad owned trailers in the facility but it was unclear if they were in active use. There were bare flat cars positioned in the terminal.

A Midwest transloader was interviewed about the grain transfer operation, the productivity of the terminal and the size of the operation. This operator is able to load four containers per hour with a single auger. They report that 20's are more desirable than 40's for loading but that there are far more 40' containers than 20's. Overweight containers and highway access is an important consideration. State and County roads often have different weight limitations.

Action Items for Next Month:

- Visit to Shelby and Great Falls is scheduled for October 1, 2007.

Task 4: Develop Montana Shipper Cost Model ((3.2.1.1.3)

A matrix of truck costs from terminal areas to various export ports was further developed.

Action Items for Next Month:

- Identify Canadian Intermodal rate matrix for Calgary.

Task 5: Document Current Intermodal Activities (3.2.1.1.4)

Interviewed ocean carriers were telephoned about equipment flows. Several carriers noted that surplus equipment is still available in Chicago but the preference is to reload this equipment for Eastern destinations. One carrier was placing a hold on all available empty equipment in the Twin Cities area pending a large new business activity. No details were shared about what

business these boxes were being held to support. No information was available on how long this hold would continue.

This task has included contacting ocean carrier sales and equipment flow managers. It is typical in these organizations that Sales, Pricing and Equipment/Operations are all resident in different areas. Sales managers are often located in regional offices. Equipment/operations seem to be in a central location, often Chicago; and pricing is often in a different office, generally at the U.S. Headquarters location. This task has taken longer than anticipated due to the segmentation of pricing, sales and operations tasks by the carriers.

In general equipment is tight and it has been difficult to attract much interest to a new operation given the current equipment availability.

Two Canadian railroads have acquired U.S. short line railroads this month. This has spawned speculation that more acquisitions might take place. One stakeholder felt that this might have a positive impact for Montana and rail competition. It is unclear that any of these events will impact intermodal activities in Montana.

Action Items for Next Month:

- Continue with Ocean Carriers on export survey

Task 6: Exploration of Railroad Incentives (3.2.1.1.5)

Stakeholders were interviewed to determine what types of incentives should be explored in order to attract carriers to provide intermodal service. Survey results were reviewed to identify incentive preferences. Since the electronic survey results have been low the data gathered to date is inconclusive.

Action Items for Next Month:

- Set up meeting with BNSF October 10, 2007

Task 7: Intermodal Service Recommendation (3.2.1.2)

Draft report to be sent for review December 1, 2007

Final report and Project Summary Report to be completed by December 31, 2007

Summary of Expenditures

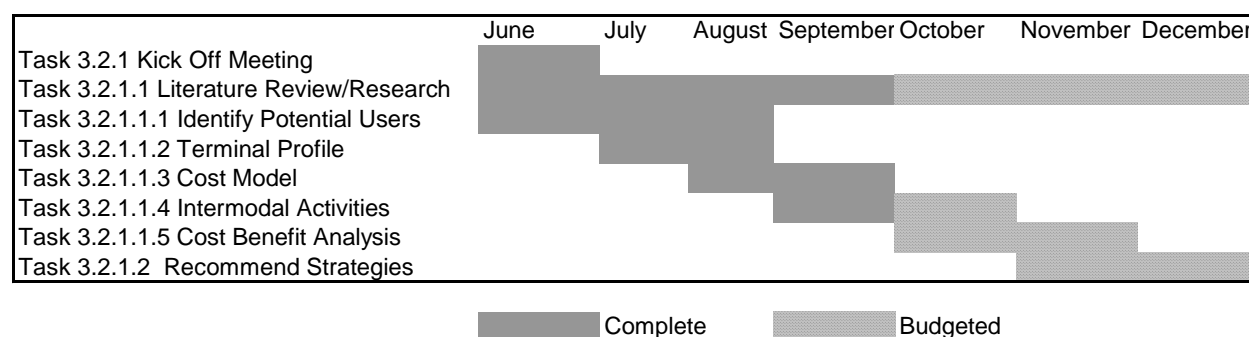
Table 1 summarizes the project costs through September 30, 2007. September 2007 cost activities amounted to \$11,995.24 leaving \$35,996.08 for the remainder of the project. Hours from Montana State University were taken over by the prime due to administrative and communication issues. \$230.30 was spent on travel to meet with Motor Carriers and interview Billings's stakeholders. The cost of travel in October will be less than anticipated. The anticipated travel will not exceed the total budget allocation.

TABLE 1. Summary of Expenditures (June 1, 2007 – September 30, 2007)

| Budget Category | Budgeted Funds | Spent This Period | Total Spent | Total Remaining |
|---|--------------------|--------------------|--------------------|--------------------|
| Labor | \$27,520.00 | \$6,720.00 | \$20,160.00 | \$7,360.00 |
| Subcontract (Direct and Indirect Costs) | \$23,204.00 | \$0.00 | \$7,494.00 | \$15,710.00 |
| Travel | \$4,800.00 | 230.3 | \$1,474.24 | \$3,325.76 |
| Operations/Communication | \$1,000.00 | \$144.94 | \$579.68 | \$420.32 |
| Indirect | \$27,520.00 | \$4,900.00 | \$18,340.00 | \$9,180.00 |
| Total | \$84,044.00 | \$11,995.24 | \$48,047.92 | \$35,996.08 |

Project Schedule Summary

A summary of the project status is shown in Figure 1. The project has been underway for four months; five project areas have been initiated. Communication and administrative issues have delayed work by the sub contractor. The project manager assumed this work during September to keep the project on schedule.

FIGURE 1: Project Schedule with Completed Work

Hours Spent in September by Task Break Down

| August Hours By Task | PI Ogard Hours | WTI Stephens Hours | WTI Cole Hours |
|---|----------------|--------------------|----------------|
| Task 3.2.1 Kick Off Meeting | | | |
| Task 3.2.1.1 Literature Review/Research | | | |
| Task 3.2.1.1.1 Identify Potential Users | 40 | | |
| Task 3.2.1.1.2 Terminal Profile | | | |
| Task 3.2.1.1.3 Cost Model | 16 | | |
| Task 3.2.1.1.4 Intermodal Activities | 40 | | |
| Task 3.2.1.1.5 Cost Benefit Analysis | | | |
| Task 3.2.1.2 Recommend Strategies | | | |
| September | 96 | | |